

**REPORT OF THE AUDIT OF THE
DAVIESS COUNTY
SHERIFF**

**For The Year Ended
December 31, 2007**



**CRIT LUALLEN
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EXECUTIVE SUMMARY

AUDIT EXAMINATION OF THE DAVIESS COUNTY SHERIFF

**For The Year Ended
December 31, 2007**

The Auditor of Public Accounts has completed the Daviess County Sheriff's audit for the year ended December 31, 2007. Based upon the audit work performed, the financial statements present fairly, in all material respects, the revenues, and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer in conformity with the regulatory basis of accounting.

Financial Condition:

A fee official in counties with a population over 70,000 has two funds established with the state for the deposit of fees collected. Seventy-five percent (75%) of the fees collected are deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected are deposited to the county government fund and paid quarterly to the county government. These funds are closed at the end of each four-year term by paying the balances to the respective county government.

The Daviess County Sheriff had total revenues of \$3,406,691, which was a \$1,370,295 decrease from the prior year. Except for reimbursed expenses in the amount of \$22,254 the Sheriff paid 25% of revenues to the Daviess County Fiscal Court in the amount of \$321,156. This was an increase of \$35,475 from the prior year. In addition, 75% operating fund expenditures increased by \$74,758.

Report Comment:

- The Sheriff Should Require Time Records For All Employees

Deposits:

The Sheriff's deposits were insured and collateralized by bank securities.

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CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Reid Haire, Daviess County Judge/Executive
Honorable Keith Cain, Daviess County Sheriff
Members of the Daviess County Fiscal Court

Independent Auditor's Report

We have audited the accompanying statement of revenues and expenditures - regulatory basis of the Sheriff of Daviess County, Kentucky, and the statement of revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer - regulatory basis for the year ended December 31, 2007. These financial statements are the responsibility of the Sheriff. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for County Fee Officials issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff prepares the financial statements on a regulatory basis of accounting that demonstrates compliance with the laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statements referred to above present fairly, in all material respects, the revenues and expenditures of the Sheriff and the revenues, expenditures, and fund balances of the Sheriff's operating fund and county fund with the State Treasurer for the year ended December 31, 2007, in conformity with the regulatory basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated December 4, 2008 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



The Honorable Reid Haire, Daviess County Judge/Executive
Honorable Keith Cain, Daviess County Sheriff
Members of the Daviess County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Require Time Records For All Employees

This report is intended solely for the information and use of the Sheriff and Fiscal Court of Daviess County, Kentucky, and the Commonwealth of Kentucky and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen
Auditor of Public Accounts

December 4, 2008

DAVIESS COUNTY
KEITH CAIN, SHERIFF
STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS

For The Year Ended December 31, 2007

Revenues

Federal Grants		\$	139,443
State Grants			152,294
State Fees for Services			328,834
Fiscal Court			1,068,823
County Clerk			12,043
Commission on Taxes			1,106,283
Fees Collected for Services:			
Auto Inspections	\$	46,200	
Sheriff Add On Fees		119,843	
Serving Papers		178,664	
Executions		3,615	
Carrying Concealed Deadly Weapon Permits		8,145	
Sheriff's Advertising Fees/Costs		19,860	
Process Served - Fiscal Court Fee		28,610	404,937
Other Revenues:			
Prisoner Transportation		9,297	
Local Grants		16,470	
Reports/Records		8,246	
Miscellaneous		668	
Reimbursed Expenses		12,909	
Daviness County School Resource Officer		68,201	115,791
Interest Earned			78,243
Total Revenues			3,406,691

Expenditures

Pass Through Grant Payments:		
Barren County Fiscal Court	\$	17,371
Bullitt County Fiscal Court		17,806

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
 KEITH CAIN, SHERIFF
 STATEMENT OF REVENUES AND EXPENDITURES - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

Expenditures (Continued)

Pass Through Grant Payments: (Continued)

Hardin County Fiscal Court	\$ 6,570	
Warren County Fiscal Court	<u>38,583</u>	\$ 80,330

Other Expenditures:

Process Served - Fiscal Court Fee	28,610	
Extraditions	12,543	
Jury Meals	666	
Court Ordered Payments (Executions)	<u>3,615</u>	<u>45,434</u>

Total Expenditures		<u>\$ 125,764</u>
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Net Revenues		3,280,927
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Payments to State Treasurer:

75% Operating Fund	2,958,840	
25% County Fund	<u>321,156</u>	<u>3,279,996</u>

Balance Due at Completion of Audit		<u><u>\$ 931</u></u>
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The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
 KEITH CAIN, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS

For The Year Ended December 31, 2007

	75% Operating Fund	25% County Fund	Totals
	<u> </u>	<u> </u>	<u> </u>
Fund Balance - January 1, 2007	\$	\$	\$
<u>Revenues</u>			
Fees Paid to State - Operating Funds (75%)	2,958,840		2,958,840
Fees Paid to State - County Funds (25%)		321,156	321,156
	<u>2,958,840</u>	<u>321,156</u>	<u>3,279,996</u>
Total Funds Available			
	<u>2,958,840</u>	<u>321,156</u>	<u>3,279,996</u>
<u>Expenditures</u>			
Daviess County Fiscal Court		321,156	321,156
Personnel Services-			
Official's Statutory Maximum	96,517		96,517
Deputies' Salaries	2,054,160		2,054,160
Overtime Gross	106,497		106,497
Officials Training Incentive Pay	3,387		3,387
Employee Benefits-			
Employer's Share Social Security	161,368		161,368
Employer's Share Retirement	564,826		564,826
Employer's Paid Health/Other Insurances	730,401		730,401
Contracted Services-			
Vehicle Maintenance and Repairs	65,576		65,576
Supplies and Materials-			
Tax Supplies	10,860		10,860
Telephone/Cell Phones	12,336		12,336
Law Enforcement Supplies	10,585		10,585
Uniforms and Equipment	23,362		23,362
Gasoline	134,034		134,034
Other Charges-			
Drug Court	1,114		1,114
Grant Operating Expenses	5,793		5,793
K-9	2,548		2,548

The accompanying notes are an integral part of the financial statements.

DAVIESS COUNTY
 KEITH CAIN, SHERIFF
 STATEMENT OF REVENUES, EXPENDITURES, AND
 FUND BALANCES OF THE SHERIFF'S OPERATING FUND
 AND COUNTY FUND WITH THE STATE TREASURER - REGULATORY BASIS
 For The Year Ended December 31, 2007
 (Continued)

	75% Operating Fund	25% County Fund	Totals
<u>Expenditures</u> (Continued)			
Other Charges (Continued)-			
Radar/Siren Repair	\$ 8,532	\$	\$ 8,532
Training	12,778		12,778
Supplies	9,211		9,211
Miscellaneous	26,730		26,730
Travel	9,735		9,735
Capital Outlay-			
Computer	3,090		3,090
Equipment	10,458		10,458
Office Equipment	237		237
Vehicles	24,285		24,285
Total Expenditures	4,088,420	321,156	4,409,576
Fund Balance - December 31, 2007 *	\$ (1,129,580)	\$ 0	\$ (1,129,580)

* In June 2008, the fiscal court contributed \$2,285,000 to the Sheriff's office. The contribution was deposited into the Sheriff's 75% operating fund.

DAVIESS COUNTY
NOTES TO THE FINANCIAL STATEMENTS

December 31, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

A fee official uses a fund to report on the results of operations. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

A fee official uses a fund for fees to account for activities for which the government desires periodic determination of the excess of revenues over expenditures to facilitate management control, accountability, and compliance with laws.

B. Basis of Accounting

KRS 64.820 directs the fiscal court to collect any amount due from the Sheriff as determined by the audit.

KRS 64.350 establishes that a fee official in counties with a population over 70,000 has two funds with the State Treasurer for the deposit of fees collected. Seventy-five percent (75%) of the fees collected is deposited in a Sheriff's operating fund and used for office expenses of the fee official. The remaining twenty-five percent (25%) of fees collected is deposited to the county fiscal court fund and paid to the fiscal courts, urban-county governments, or consolidated local governments of the respective counties quarterly no later than April 15, July 15, October 15, and January 15. These funds are closed at the end of each official term by paying the balances to the respective county government.

The financial statements have been prepared on a regulatory basis of accounting, which demonstrates compliance with the laws of Kentucky and is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Under this regulatory basis of accounting revenues and expenditures are generally recognized when cash is received or disbursed with the exception of accrual of the following items (not all-inclusive) at December 31:

- Interest receivable
- Collection on accounts due from others for 2007 services
- Reimbursements for 2007 activities
- Tax commissions due from December tax collections
- Payments due other governmental entities for payroll
- Payments due vendors for goods or services provided in 2007
- Payroll expenditures incurred but not paid

The Attorney General issued a letter which stated that some revenues of the fee official offices could be considered reimbursed expenses. All reimbursed expenses are treated as revenue in the 75 percent fund.

DAVISS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007
(Continued)

Note 1. Summary of Significant Accounting Policies (Continued)

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Employee Retirement System

The county officials and employees have elected to participate in the County Employees Retirement System (CERS), pursuant to KRS 78.530 administered by the Board of Trustees of the Kentucky Retirement Systems. This is a cost-sharing, multiple-employer, defined benefit pension plan that covers all eligible full-time employees and provides for retirement, disability, and death benefits to plan members.

Benefit contributions and provisions are established by statute. Nonhazardous covered employees are required to contribute 5.0 percent of their salary to the plan. The county's contribution rate for nonhazardous employees was 13.19 percent for the first six months and 16.17 percent for the last six months of the year. Hazardous covered employees are required to contribute 8 percent of their salary to the plan. The county's contribution rate for hazardous employees was 28.21 percent for the first six months and 33.87 percent for the last six months of the year.

Benefits fully vest on reaching five years of service for nonhazardous employees. Aspects of benefits for nonhazardous employees include retirement after 27 years of service or age 65. Aspects of benefits for hazardous employees include retirement after 20 years of service or age 55.

Historical trend information pertaining to CERS' progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Retirement Systems' annual financial report which is a matter of public record. This report may be obtained by writing the Kentucky Retirement Systems, 1260 Louisville Road, Frankfort, Kentucky 40601-6124, or by telephone at (502) 564-4646.

Note 3. Deposits

The Daviess County Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times.

DAVISS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007
(Continued)

Note 3. Deposits (Continued)

In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The Daviess County Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of December 31, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 4. Special Investigations Account

The Daviess County Sheriff's Office maintains a Special Investigations Account for monies received from court ordered forfeitures in connection with drug related arrests. The balance of the account as of January 1, 2007 was \$518. During 2007, revenues were \$16,096 and expenditures were \$15,676 resulting in a balance of \$938 as of December 31, 2007.

Note 5. Self Insured Health Insurance Fund

The Daviess County Sheriff (Sheriff) participates in a partially self-funded health insurance plan. This partially self-funded insurance plan covers all employees of the Sheriff's office. The Sheriff's office pays for each employee's individual coverage. The Sheriff contracted with Presidential Life Insurance Company to administer the employee benefit plan for the year ended December 31, 2007.

This partially self-funded insurance plan has two distinct components that the Sheriff must pay. The first component is the fixed cost, which consists of administrative fees associated with operating the plan, and specific and aggregate reinsurance costs that cap the county's claims exposure on an individual and aggregate basis. Incurred fixed costs for the year ending December 31, 2007 were \$223,563. The second component is the claims cost, all of which the Sheriff is responsible to pay as they incur. Once an individual exceeds \$15,000 in claims or the Sheriff's aggregate claims exceed the predetermined maximum, then the Sheriff will receive reimbursements from the reinsurance carrier. Incurred claims for the year ended December 31, 2007 were \$390,773 and reimbursements were \$22,377. The Sheriff's contract had no terminal liability provision. The Sheriff would be responsible to pay all run-out claims after termination. The Health Insurance Fund had a balance of \$126,439 as of December 31, 2007.

DAVISS COUNTY
NOTES TO THE FINANCIAL STATEMENTS
December 31, 2007
(Continued)

Note 6. Deferred Compensation

All eligible employees of the Daviess County Sheriff's Office may participate in deferred compensation plans administered by the Kentucky Public Employees' Deferred Compensation Authority. The Kentucky Public Employees' Deferred Compensation Authority is authorized under KRS 18A.230 to 18A.275 to provide administration of tax sheltered supplemental retirement plans for all state, public school and university employees and employees of local political subdivisions that have elected to participate. These deferred compensation plans permit all full time employees to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency. Participation by eligible employees in the deferred compensation plans is voluntary.

Historical trend information showing the Kentucky Public Employees' Deferred Compensation Authority's progress in accumulating sufficient assets to pay benefits when due is presented in the Kentucky Public Employees' Deferred Compensation Authority's annual financial report. This report may be obtained by writing the Kentucky Public Employees' Deferred Compensation Authority at 101 Sea Hero Road, Suite 110, Frankfort, Kentucky, 40601-8862, or by telephone at (502) 573-7925.

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



CRIT LUALLEN
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Reid Haire, Daviess County Judge/Executive
Honorable Keith Cain, Daviess County Sheriff
Members of the Daviess County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards

We have audited the financial statements - regulatory basis of the Daviess County Sheriff for the year ended December 31, 2007, and have issued our report thereon dated December 4, 2008. The Sheriff's financial statements are prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Daviess County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sheriff's internal control over financial reporting.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the regulatory basis of accounting such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statements Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Daviess County Sheriff's financial statements for the year ended December 31, 2007, is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed one instance of noncompliance or other matters that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Require Time Records For All Employees

The Daviess County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Daviess County Fiscal Court, and the Department for Local Government and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen
Auditor of Public Accounts

December 4, 2008

COMMENT AND RECOMMENDATION

DAVISS COUNTY
KEITH CAIN, SHERIFF
COMMENT AND RECOMMENDATION
For The Year Ended December 31, 2007

STATE LAWS AND REGULATIONS

The Sheriff Should Require Time Records For All Employees

During testing of payroll, we noted that 44 employees did not submit timesheets for the period tested. Per discussion with financial officer and other employees, timesheets for road deputies and supervisors were not submitted to the office personnel who prepare the payroll submissions for payment by the state. Road deputies log in and out through computer-automated dispatch, but no physical record is printed or sent electronically to office personnel who prepare the payroll submission. KRS 337.320 states, "Every employer shall keep a record of: (b) The hours worked each day and each week by each employee". The Sheriff should require all employees to submit timesheets or another record of time worked in order for the Sheriff to document compliance with KRS 337.320.

Sheriff's Response: The Department will implement time sheet records as recommended. We believed that we were in compliance with regulations for employees working "fixed schedules".

